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SUBJECT: DIFFERENCES AMONG U.S. FIRMS GIVE RISE TO NEW
ASSOCIATION OF RESEARCH-BASED PHARMACEUTICAL COMPANIES

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1. (SBU) Summary: With Turkey's new AK government just having marked its hundredth day in office, representatives of American pharmaceutical companies indicate they have not yet judged the time ripe to raise the intellectual property and pricing issues that have beset them in recent years. Despite this, they see some grounds for hope. Eli Lilly Managing Director Roberto Giusti argues that in contrast to its more "nationalistic" predecessor, the current government's intentions are good, though it has little concept of the scale of the issues confronting it in the pharmaceutical area. Giusti argued that advancement of U.S. pharmaceutical interests remains hampered by continued divisions within the industry. Differences over the relative weight accorded to such issues as prolonging the reimbursement lifecycle of older off-patent brands has divided such industry leaders as Eli Lilly and Pfizer, with the former joining with like-minded companies to form a new "Association of Research Based Pharmaceutical Companies" (AIFD) in January. Now completing its registration procedures, the group will make an introductory foray into Ankara later this week. Meanwhile, Giusti encouraged the USG to continue to host regular gatherings of the industry, noting that outside these sessions "there is very little dialogue." End Summary.

2. (SBU) A New Association: In a February 27 meeting with P/E Chief and Commercial Specialist, Eli Lilly General Manager Roberto Giusti (joined midway through the meeting by Akzo Nobel General Manager Edward Lysen) outlined the goals of the new research-based association (of which he is Vice President). (Note: The Group's ten members make up 20 percent of the sector, accounting for a significant 190 million USD in investment in Turkey in the past two years. End Note.) They stressed that neither IEIS (the Drug Manufacturers Employers' Association) nor TISD (the Turkish Drug Manufacturers' Association) makes representation of innovation or of research-based interests their top priority, and that AIFD aims to fill that gap. Pointing to "big picture" in Turkish healthcare expenditure, Giusti argued that while the total is deficient (closer to that of Bulgaria than that of Greece), it is also seriously skewed. Much of it, he suggested, is a "subsidy" to domestic industry, in that while imported drugs routinely face price discrimination, Turkish manufacturers receive reimbursement far above comparable world prices for their "copy drugs" (or generics). As a result, cost containment (encouraged by the IMF) has targeted new and innovative products, resulting in price discrimination against them. (Thus, vitamins, e.g., are subsidized, while new cancer drugs are not.) Giusti stressed that the new association is not overtly seeking an end to the subsidies, nor to the reimbursement lifecycle issues on which he suggested Pfizer is focused. Rather the group believes these "business interests" should be lower priorities than the industry's "legitimate entitlements": full implementation of intellectual property rights and the discontinuation of discriminatory practices against imports. In Giusti's view, the defensibility of the "local subsidy" or reimbursement lifecycle is not the key issue; rather the issue is their "inappropriateness" at a time when data exclusivity is not provided and when price discrimination continues to exist.

3. (SBU) Continued Differences: Giusti noted that the association's members are not exclusively foreign, but include three Turkish research-based firms. Founding

companies include Novartis, Sering AG, Novo, Bayer, Solvay, Lundbeck Astrazeneca, Sanofi-Synthelabo, Organon and Lilly. Outside the new organization are those with "other interests": generic manufacturers, with their vested interest in the current reimbursement system, and Pfizer. (In a separate meeting with Pfizer's Pricing Director Feyza Tevruz earlier in the month, these differences were only indirectly touched upon, with Tevruz noting that Pfizer did not share all of Giusti's criticism of the reimbursement system: while it agreed the system was "not perfect," it could live with it.) Giusti also expressed frustration with the lack of transparency in the GOT's reimbursement decisions, suggesting that some other foreign firms had benefited from their access to decisionmakers to win special breaks. Part of the problem, he suggested, is a lack of communication within the industry, and he encouraged the USG to hold pharmaceutical roundtables (like that of late November at the Consulate) on a more regular basis. Lysen echoed the point, noting that in his past assignment, roundtables hosted by Embassy Tokyo had been extremely helpful in keeping the industry informed about developments and on the same page in their advocacy efforts.

14. (SBU) Still too Early: Giusti and Lysen echoed what Tevruz and Pharmacia-Upjohn Country Director Muhittin Bilutay suggested earlier in the month: the time is only now becoming ripe to press the new Minister of Health on the data exclusivity and price discrimination issues, particularly given staff changes in the Ministry. Giusti was hopeful that the new government would be more open to the industry's position than its predecessor. The Ecevit government, he argued, saw issues through a "nationalistic" prism and was predisposed to back domestic industry at the expense of its foreign counterparts. That may not be true of AK: he suggested that the government's intentions are "good," but that it is not aware of the extent of things that need to be changed. Giusti said he will make an initial trip to Ankara this week to introduce the new association and distribute the new issue paper it has prepared (copy e-mailed to desk and Embassy Ankara). Bilgutay similarly indicated that the industry is just now beginning to raise the price issues that have seriously harmed it in Ankara. The Import subcommittee of the Pharmaceutical Manufacturers Association (PMA) planned to meet with the Health Ministry's new Director General of Pharmaceuticals in mid-February to raise its concerns about import pricing, and to determine whether she planned to adhere to the action plan her predecessor had adopted to address the issue. Bilgutay stressed the seriousness of the situation, noting that regulations that had cut the companies' margins on imports from 36 to 16 percent (10 percent profit and 6 percent cost), when coupled with inflation and lags in reimbursement cycles, had seriously harmed the industry.

15. (SBU) A Tender Trap?: Bilgutay also flagged his concern that new tender regulations may apply to purchase of pharmaceutical products, putting further downward pressure on already low reimbursement prices. Neither Giusti or Tevruz raised this issue, however.

16. (SBU) Comment: Serious divisions persist among U.S. and other international companies active in the Turkish market, though there is underlying agreement that intellectual property issues need to be addressed, as is reflected in PhRMA's latest submission. Given the positive feedback on the roundtable Mission organized in November (the third in the past year), we will seek to organize such sessions on a regular basis, though perhaps not quite as often as the monthly session Giusti suggested. A goal at some of these sessions would also be to encourage dialogue between American and Turkish pharmaceutical companies, something the American-Turkish Council has also attempted to organize. End Comment.

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